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SUBJECT: HUNGARY MAKES WORLD'S FIRST CO2 EMISSIONS SALE UNDER KYOTO TO BELGIUM

Ref: Budapest 664

¶1. Summary: On September 29, Hungary announced it had sold its quota of 2 million tons of carbon dioxide emissions to Belgium, in what it calls the world's first international emissions sale under the Kyoto Protocol. Reportedly Hungary plans to use the revenues from this sale to fund its Green Investment Scheme, as the Minister of Environment had told the Ambassador he hoped to do in their initial meeting in June. End summary.

¶2. Hungary announced September 29 in the local press the sale to Belgium, which Hungary claims is the first carbon credit sale under the Kyoto Protocol. The Ministry of the Environment acknowledges that Slovakia made an earlier emissions trade with Japan, but insists this did not fall under the Kyoto Protocol because Slovakia had not met Kyoto requirements.

¶3. Hungary's commitment under the Kyoto Protocol was to reduce carbon dioxide emissions by 6 percent in the 2008-2012 period compared to a base period of 1985-1987. In fact, Hungary has reduced its emissions by an additional 26 percent, largely due to structural changes in the industrial sector since 1990. Hungary estimates that it will have 70-80 million tons of surplus emission quotas over the Kyoto phase. The Ministry of Environment confirmed that the Hungarian government is in talks with a dozen other potential buyers but does not necessarily want to sell all of its surplus.

¶4. The Ministry would not reveal how much Belgium paid Hungary for these carbon credits. According to the Ministry of Environment, Hungary plans to channel emissions trading revenues into the Ministry of Environment's Green Investment Scheme, which reportedly will go into effect later this year with a budget of several billion Hungarian forints. This scheme will support projects that cut greenhouse gas emissions from residential and institutional buildings, such as improving energy efficiency of buildings, utilizing renewable energy sources, (e.g. photovoltaic panels) and constructing passive houses.

¶5. Carbon dioxide emissions from buildings account for 30 percent of Hungary's carbon dioxide emissions. The Ministry of Environment estimates that increased energy efficiency in buildings could save 6 million tons of carbon-dioxide, approximately 7-8 percent of the country's annual greenhouse gas emissions.

¶6. Comment: Without knowing the amount of revenue generated by this sale or the details on how the forthcoming Green Investment Scheme will work, it is difficult to assess the potential impact of carbon trading as a funding mechanism for Hungary's energy efficiency and uptake of renewable energy technologies. However, the announcement of this trade and the intended use for the profits shows that the Minister of Environment is following through on the enthusiasm he expressed in his initial meeting with Ambassador Foley in June (reftel).
FOLEY